# Understanding the BEIS consultation

## 'Restoring trust in audit and corporate governance'

*Non-Executive Director (NED) focus group: The Audit and Assurance Policy*

**The Audit and Assurance Policy – NEDs support aims, whilst urging care over design and scope**

On 18 March 2021, the Government (BEIS) published its long-awaited consultation on reforms aimed at 'restoring trust in audit and corporate governance'. It is a significant consultation with 98 consultation questions covering almost all 155 recommendations from the Kingman, CMA and Brydon reviews. The deadline for responses to the consultation was 8 July 2021.

### PwC focus groups

During the consultation period PwC convened a series of focus groups to serve as an open forum for NEDs to discuss the Government's proposals. On 10 May 2021, two groups met to talk about the proposal for an Audit and Assurance Policy that sets out what assurance is being commissioned over the whole annual report and other corporate information – subject to shareholder comment and advisory vote.

These focus groups were conducted under the Chatham House Rule so quotations in this article are unattributed.


**Contact us**

**Sotiris Kroustis**
PwC UK Head of Public Policy
sotiris.kroustis@pwc.com

**Gilly Lord**
Global Leader, Public Policy & Regulation
gillian.lord@pwc.com

**Jayne Kerr**
Director, Audit Strategy and Public Policy
jayne.l.kerr@pwc.com


pwc

Some of the key questions discussed around the introduction of an Audit and Assurance policy were:

## Is there a demand for greater assurance?

There was a general feeling that the intentions of the proposal are good and that it could bring greater transparency and help ensure that stakeholders understand the scope of the external audit and other assurance. In fact many participants thought that, even if the Policy was not an external document, boards could find it a really useful internal exercise to determine what level and depth of assurance they have over their corporate information.

Some participants said they would find higher levels of assurance useful and indeed necessary for their industry stakeholders. Areas of rising importance for assurance that were discussed included environmental issues such as climate change and carbon footprint, health and safety, cybersecurity and digital privacy, and compliance with industry and financial regulations.

Other participants argued for a proportional response to assurance. One said: “I worry that if boards are asked whether they’re going to get assurance or not, the natural inclination is to go for assurance. It’s really important that we’re very proportionate in response here and decide where we really need assurance and not simply try and do everything.”

There was also a question over responsibility for when things go wrong: “With corporate disasters, people often go after the auditors, not the board. I wonder, with this level of assurance, whether, actually, that is reducing the responsibility of directors and outsourcing that responsibility. And that is a worry, ultimately.”

Most participants agreed, however, that companies could be clearer in communicating how much assurance they’ve already commissioned – from internal audit and external assurance providers – over information in their annual report or other corporate reports.

It was also felt by many that the starting point must be the company’s reporting. As one participant said: “We’re clearly seeing an increase in the information that’s been captured in the front half of the annual report in response to increasing demands from stakeholders. The question is: Do they have confidence in that information? Or do they have any concerns? Some transparency around their assurance policy will allow companies to create greater consensus between the board and shareholders on decision-making.” Another participant mentioned the mining industry as a sector with strong shareholder interest in disclosure on community support and environmental issues, while several pointed out that no two sectors’ needs are the same.

## If additional assurance is demanded, who should provide it?

Participants were sceptical about whether the Policy would mean an increase in the number of assurance providers. The proposal makes it clear that businesses don’t have to use their financial statements auditor for the Policy. But some participants said this will more likely drive current assurance providers to expand their offerings in areas of risk, rather than encourage new entrants into the market.

“The view that this proposal would increase competition is misplaced. Assurance providers are likely to be specialists on issues such as the environment, not necessarily firms qualified to audit financial statements. Some providers may decide it’s more lucrative for them to just build up capability on the environment.”

Many felt that this Policy could give internal auditors the opportunity to become higher-profile players in assurance discussions and create more awareness of what internal audit does around assurance. “Internal audit can be a good assurance source for the Policy. [The internal audit team] may be the best people for this job," said one participant.

On this point, another participant suggested the internal audit team would need to engage in promotional efforts to get the message out to the rest of the organisation and to shareholders about its degree of independence whilst other participants felt that for some key areas third party independent assurance would become the market expectation.

## What should the scope and requirements of the Audit and Assurance Policy be?

As many companies identify up to 20 areas of principal risk that are fundamental to their resilience over time, a number of participants raised concern about how much extra time and effort will need to be spent on compiling the Audit and Assurance Policy alongside a significant volume of existing corporate reports, although a number did see there would be real value in such an exercise.

Some participants expressed concerns around implementation of the Policy – specifically what would be mandated and what would be left to company discretion. It was generally agreed there would be a need to design and structure the policy properly and proportionately and for it to be clear to readers what the different types and levels of assurance meant. Participants also called for the government to be clear on what parts of the Policy are mandated and there was a desire to maintain a principles-based, as opposed to rules-based, environment.

## Should the Audit and Assurance Policy be voted on by shareholders?

Participants wondered whether the proposal that the Policy be voted on by shareholders could undermine the authority of boards, which they believe, should still hold the ultimate responsibility for determining assurance over risks and should be trusted to provide relevant information to shareholders and other stakeholders.

One participant noted: “I think the assumptions should be that directors are competent until proven otherwise.”

It was also feared that, because the Policy would be subject to vote (albeit advisory) by shareholders, this could give investor groups the power to drive corporate agendas on assurance or could give too much power to a minority viewpoint among shareholders.

However, participants ultimately saw benefits if the board and shareholders work together.

“If the board could have a coherent debate with shareholders as to what assurance is of interest, that could be helpful. If they adopt the stance that all assurance is good and the more assurance the better, that would be unhelpful because we don’t want this taken out of the board’s hands.”

## Will shareholders engage?

This naturally led to a discussion around whether shareholders would actually engage with the Policy. If shareholders are interested in the information offered in the Policy, it was felt that it could lead to fruitful debate with the board.

“There are certain areas that are really important at the moment, such as climate change. That’s an area where I would really value engagement with shareholders to get the best result. But a blanket approach might lead to distraction. Better to focus on specific areas than try to cover everything.”

Some participants did feel it’s often difficult to engage shareholders on audit and assurance issues.

“I've chaired audit committees for many years and I have never had a question about what we cover in the assurance and audit committee,” said one participant.

It was generally felt that if shareholders don’t engage, the exercise of disclosing assurance details would lose a lot of its value as the statement is meant to involve investors in decisions about how much assurance a business wants or needs.

That said, there was concern that engagement could become a 'tick-the-box' exercise where shareholders merely fulfil their regulatory duty and that really meaningful debate was needed.

“How meaningful would the input from investors be? Would it be a tick-box mentality over issues such as the environment or employee engagement?” asked one participant.

Others thought using technology effectively would help stakeholders to navigate any additional information.

### Conclusion

There were varying views on whether this Policy would lead to a demand for additional assurance, from the external auditor or otherwise. However, participants were in agreement that there is a need for more transparency around the amount and quality of assurance companies obtain and that the Policy would be a valuable way to do this. Related to this, it was felt by some that the profile of internal audit as assurance providers should be raised and this Policy might be a way to do this.

Boards will also benefit from involving shareholders in discussions around what quantity and types of assurance would be best for the business, and careful thought must be put into how to engage shareholders in the process in a meaningful way without making it a compliance exercise.

The process of disclosing information about assurance must not be so cumbersome – and the scope of the mandates so broad – as to overburden companies and become a ‘tick-box’ exercise. Many were in favour of a principles-based, rather than rules-based approach.



RITM5271282